

## **MICHIGAN STATE GOVERNMENT DEBT**

### ***By Gary S. Olson, Director***

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With the recent legislative approval of the fiscal year (FY) 1999-2000 Capital Outlay appropriation bill, discussion in the Legislature focused on the level of State government debt. This article provides a review of the current level of Michigan State government debt, the recent growth in the level of State government debt, and a comparison of Michigan State government debt with debt in other states.

The State of Michigan issues debt in two broad categories. General obligation bonds are debt instruments backed by the full faith and credit of the State. An example of general obligation debt is the Clean Michigan Initiative bonds approved by State voters in the November 1998 general election. Nongeneral obligation bonds are debt instruments backed by a restricted State revenue source. Examples of nongeneral obligation bonds include: State Building Authority bonds used to construct State and university buildings and the bonds issued by the Department of Transportation for transportation infrastructure projects. (A detailed discussion on the different types of State government debt can be found in the Senate Fiscal Agency Issue Paper entitled, "*State Government Debt in Michigan: An Overview and Background*" published in October 1997 and available at the Senate Fiscal Agency website: [www.state.mi.us/sfa.](http://www.state.mi.us/sfa.))

Table 1 provides a history of Michigan State government debt outstanding as of September 30 for the years 1979 to 1998. Total debt outstanding over this 20-year period increased from \$2.2 billion in 1979 to \$14.5 billion in 1998, an increase of 550%. Most of this increase occurred in the level of nongeneral obligation debt outstanding. Nongeneral obligation debt outstanding increased from \$1.7 billion in 1979 to \$13.6 billion in 1998. This increase in nongeneral obligation debt is attributable to the creation and expansion of new borrowing programs such as the Higher Education Facilities Authority, the Hospital Finance Authority, the Michigan Municipal Bond Authority and the Strategic Fund. These debt instruments do not have an impact on the State budget and the repayment of these bonds is by restricted revenue sources outside the overall State revenue system.

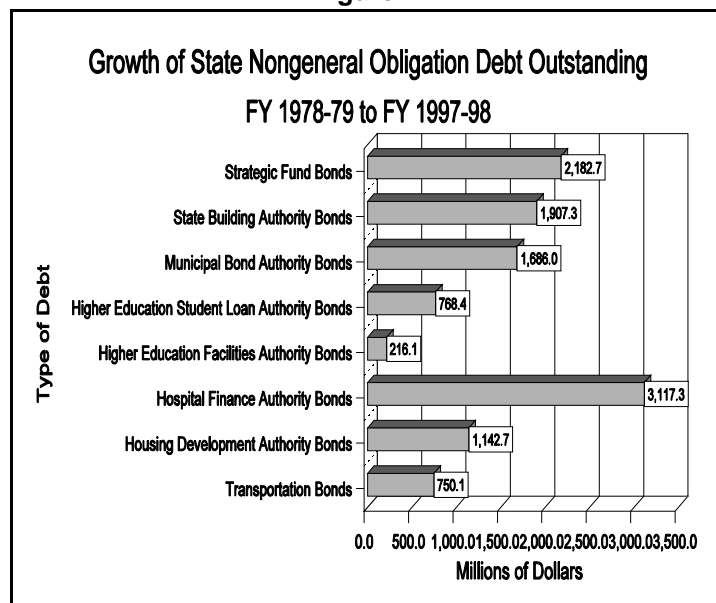
<b>Table 1 MICHIGAN STATE GOVERNMENT DEBT OUTSTANDING AS OF SEPTEMBER 30 OF EACH YEAR</b>			
Year	State Government Debt		
	General Obligation	Nongeneral Obligation	Total State
1979	\$482,500	\$1,749,940	\$2,232,440
1980	439,100	2,353,199	2,792,299
1981	409,600	2,692,335	3,101,935
1982	361,000	3,205,816	3,566,816
1983	309,300	4,059,541	4,368,841
1984	259,300	4,790,151	5,049,451
1985	241,700	5,501,591	5,743,291
1986	198,000	6,631,876	6,829,876
1987	157,700	6,661,528	6,819,228
1988	129,500	6,824,257	6,953,757
1989	106,400	6,878,901	6,985,301
1990	187,723	7,619,452	7,807,175
1991	162,133	8,534,758	8,696,891
1992	402,934	9,877,394	10,280,328
1993	420,813	9,667,846	10,088,659
1994	438,040	10,442,492	10,880,532
1995	706,006	11,073,285	11,779,291
1996	684,983	11,488,271	12,173,254
1997	655,184	12,187,613	12,842,797
1998	874,162	13,641,732	14,515,894

Source: Michigan Department of Treasury

Figure 1 examines the growth of State nongeneral obligation debt outstanding for specific bonds during the period FY 1978-79 to FY 1997-98. The greatest increase in State debt outstanding occurred in the Hospital Finance Authority (\$3.1 billion), the Strategic Fund (\$2.2 billion) and the State Building Authority \$1.9 billion). These types of bonds are repaid with dedicated State revenues or with repayment schedules mandated for the entities receiving the proceeds of the bonds.

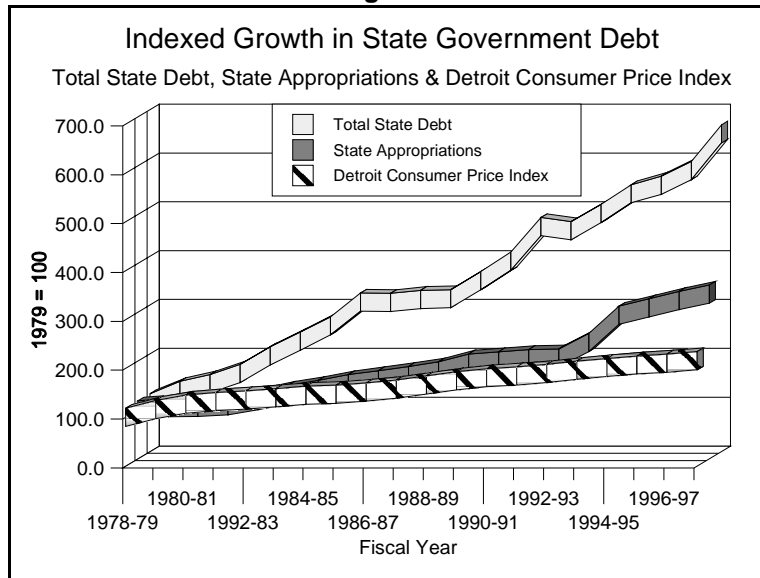
Figure 2 attempts to examine the growth in State debt relative to other State economic factors. In order to make such a comparison, State debt, inflation (Detroit Consumer Price Index), and the State budget (State Spending from State Resources appropriations) are indexed using FY 1978-79 as the base year. Thus, the rates of change for each of these factors are made comparable.

**Figure 1**



As [Figure 2](#) illustrates, State debt has consistently outpaced the rate of inflation. From FY 1978-79 through FY 1997-98, inflation increased 115.8%, while State debt increased 550.2%. Finally, State appropriations increased 227.1% over the same time period.

**Figure 2**



The United States Bureau of the Census publishes annual data regarding the level of debt outstanding in each state. The Bureau of the Census debt data include both general obligation and nongeneral obligation state debt. In order to provide a meaningful comparison among the states, the Bureau of the Census state debt data are also published on a per-capita basis.

[Table 2](#) provides a state-by-state ranking of state per-capita debt outstanding for FY 1980, FY 1990, and FY 1997. During FY 1997, Michigan state government debt per capita outstanding ranked 24<sup>th</sup> among the 50 states. This does represent a significant movement up in the State rankings from FY 1980 and FY 1990 when Michigan's State government debt per capita outstanding ranked 36<sup>th</sup> among the states.

<b>States</b>	<b>FY 1980</b>	<b>FY 1990</b>	<b>FY 1997</b>
Alabama	39	31	42
Alaska	1	1	1
Arizona	50	44	49
Arkansas	45	41	41
California	32	33	28
Colorado	46	42	43
Connecticut	8	4	3
Delaware	4	2	6
Florida	38	39	36
Georgia	40	47	44
Hawaii	2	6	7
Idaho	33	34	31
Illinois	21	21	14
Indiana	49	40	37

**Table 2**  
**STATE RANKINGS OF STATE DEBT PER CAPITA**

<b>States</b>	<b>FY 1980</b>	<b>FY 1990</b>	<b>FY 1997</b>
Iowa	47	43	46
Kansas	43	50	50
Kentucky	15	17	17
Louisiana	17	7	23
Maine	19	16	11
Maryland	14	18	15
Massachusetts	10	5	5
<b>MICHIGAN</b>	<b>36</b>	<b>36</b>	<b>24</b>
Minnesota	25	38	38
Mississippi	35	46	40
Missouri	42	30	30
Montana	27	15	13
Nebraska	48	37	39
Nevada	18	22	22
New Hampshire	11	8	4
New Jersey	13	11	10
New Mexico	22	24	27
New York	6	10	8
North Carolina	41	49	45
North Dakota	34	20	29
Ohio	29	29	33
Oklahoma	26	25	35
Oregon	3	12	19
Pennsylvania	23	35	32
Rhode Island	5	3	2
South Carolina	20	27	26
South Dakota	9	9	12
Tennessee	37	45	48
Texas	44	48	47
Utah	30	28	34
Vermont	7	13	9
Virginia	31	32	25
Washington	28	26	20
West Virginia	12	19	21
Wisconsin	24	23	16
Wyoming	16	14	18

Source: United States Bureau of the Census